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UNCLAS SECTION 01 OF 02 KUALA LUMPUR 001642

SIPDIS

STATE PASS USTR - WEISEL AND JENSEN
STATE PASS FEDERAL RESERVE AND EXIMBANK
STATE PASS FEDERAL RESERVE SAN FRANCISCO TCURRAN
SINGAPORE PASS TO SBAKER
USDOC FOR 4430/MAC/EAP/J.BAKER
TREASURY FOR OASIA AND IRS
GENEVA FOR USTR
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SIPDIS

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SUBJECT: MALAYSIA USING WORLD BANK'S DOING BUSINESS REPORT AS
BLUEPRINT FOR REFORM

11. (U) Summary: Last spring Prime Minister Abdullah expressed concern about Malaysia's weakening competitiveness and established Pemudah, a public-private committee mandated to suggest ways the government could reduce red tape and increase transparency. Pemudah is using the World Bank "Doing Business" report as its blueprint, and its goal is to raise Malaysia into a top ten country ranking by 12010. This year, Malaysia moved up just one notch in the World Bank's "Doing Business 2008" report, from 25th place to 24th among 178 countries, but if the GOM continues to carry out procedural reforms identified by Permudah and World Bank staff, its ranking in the coming years should continue to improve. At a recent Government hosted a half-day seminar on what Malaysia could do to improve its competitiveness, World Bank staff identified simple approaches to cutting opportunities for corruption by, among other things, cutting the time it took to process business licensing and registration requests. Pemudah already has addressed some of these and to date, the time required for transferring property, paying taxes, processing expatriate work visas, and clearing customs has been reduced. This high-level attention on improving the country's business climate is a step in the right direction, but private sector economists note that deeper reform is needed, particularly with regard to Malaysia's race-based preferences which are the heart of inefficiencies contained in the government's New Economic Policy. End summary.

The Report

12. (U) This past spring, Prime Minister Abdullah told the press he was concerned about Malaysia's low rankings in some categories of the Doing Business 2007 report and established PEMUDAH, a committee of government and private sector leaders with a mission to identify and evaluate bureaucratic impediments to conducting business in Malaysia and to make recommendations to the PM on how to address them. More information about the reform committee is available at www.pemudah.gov.my. The World Bank's fifth annual "Doing Business" Report, released on September 26, presents quantitative indicators on business regulations and the protection of property rights that can be compared across countries and over time. The purpose of the report is to establish a competitive framework that encourages reform and to demonstrate direct links between reforms and economic growth. Malaysia ranks 24th among 178 countries this year, up one notch from last year.

GOM HOSTS "DOING BUSINESS" SEMINAR

13. (U) On October 31, the Government of Malaysia hosted a briefing on the World Bank's "Doing Business 2008" results, presented by Justin Yap, World Bank Regulatory Economist for Finance & Private Sector Development, and Sylvia Solf, World Bank Private Sector Development Specialist. About 200 people attended including representatives from the Malaysian Government.

HOW MALAYSIA FARES

14. (U) Malaysia's best rankings were in ease of getting credit and protecting investors, where it ranked third and fourth respectively. Its worst rankings were in enforcing contracts and dealing with licenses, where it ranked 63rd and 105th. Yap pointed out that building a warehouse in Malaysia required 25 different procedures which took, on average, 285 days at a cost of 10 per cent of per capita income. Eleven separate agencies were involved, involving multiple on-site inspections.

17. (U) Countries ranking in the top ten for this indicator generally had three things in common: they required few pre-approvals, few on-site inspections, and a single agency handled all necessary approvals. Yap pointed out that each step in the regulatory process was yet another opportunity for corruption, in addition to the drag of over-regulation on the business community.

18. (U) Malaysia ranks 67th in registering property, which requires five separate procedures and takes 144 days. Several members of the audience stated that this was too optimistic - that in fact it took much longer.

KUALA LUMP 00001642 002 OF 002

HOW TO IMPROVE

19. (U) Solf presented a number of reforms the government could do to improve its rank, none of which would require a change in the law. As it turns out, PEMUDAH already is working on some of these initiatives. To improve its ranking in the ease of starting a business, Solf suggested an electronic database for company names, which would enable simple name changes and a single identity check, along with low, flat registration fees. PEMUDAH is in the process of getting just such a system into place. Previously, starting a business required name registration with multiple agencies, each of which took days or weeks to make sure no other company already was using that name.

11. (U) For ease of registering property, Solf recommended that Malaysia adopt a flat stamp duty fee which would eliminate the need for time-consuming valuation visits. In addition, efficiency should be improved in the land registry and stamp duty offices. PEMUDAH convinced the GOM to contract out its valuation visits to the private sector, saving time in the property registration process. According to PEMUDAH's website, processing stamp duty for land transfers has been reduced from a range of 16 to 62 days to a current range of 2 to 16 days. Nine separate procedures, all of which were done manually, have been reduced to six; five of these can be done online.

12. (U) For dealing with licenses, Solf recommended that a single agency be authorized to grant planning and building permits, and that on-site inspections be coordinated jointly or, better yet, contracted out to the private sector. Another of Solf's recommendations was that companies should be given the option of paying taxes annually instead of monthly, and paying electronically. Malaysia currently ranks 56th in ease of paying taxes, which requires 35 payments per year and takes 166 hours.

OTHERS MORE SKEPTICAL

¶14. (SBU) Econ Counselor Matt Matthews and ECONOFF met with Lim Teck Ghee, retired World Bank Social Scientist and former head of a local think tank. Lim was skeptical about the seriousness of the GOM's promises of economic reform. Lim described PEMUDAH's accomplishments as minor reforms taking place "around the edges" of Malaysia's bureaucracy, but said that until the GOM is prepared to move beyond the racial preference policies contained in the New Economic Policy (NEP), there will be no real changes, he said. (Note: Lim was not involved in the preparation of the Doing Business report during his tenure at the World Bank.)

COMMENT:

16 (U) Malaysia's successes in cutting the red tape for businesses represent a step forward for the economy, and the PEMUDAH committee is proving to be an effective catalyst for change. It is an especially positive sign that the GOM is willing to host a discussion highlighting its own bureaucratic barriers. Improvements effected to date only scratch the surface of the reforms needed to unleash the full potential of the Malaysian economy -- reforms for which there is no realistic hope in the near term. Still, the fact that economic reform is on the agenda of the PM bodes marginally better for Malaysia's future.